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SUBJECT: FURTHER INDICATION THAT IRAQI PDS REFORM WILL NOT
BEGIN IN 2009

REF: A. BAGHDAD 3680
[1](#)B. BAGHDAD 3184 AND PREVIOUS

[1](#)1. (SBU) SUMMARY: A senior Iraqi MOT official has indicated that significant reforms to the Public Distribution System (PDS) would be "unrealistic" in 2009, mainly because it is an election year. But he also expressed optimism that limited monetization could be phased in starting as early as 2010.
END SUMMARY.

No Significant Reform in an Election Year

[1](#)2. (SBU) Agriculture Counselor and Econoff met with Abdulhadi [1](#)K. Al-Hamiri, the Ministry of Trade (MOT) Director General (DG) responsible for Iraq's PDS, December 16. Al-Hamiri acknowledged that the initial "means testing" phase of the MOT's PDS reform plan -- scheduled to begin in November -- had been delayed. The MOT had planned to distribute income questionnaires to all families receiving PDS benefits, as the first step toward a means testing process that would ultimately remove the wealthiest 20 percent of Iraqis from the rolls (Reftel B). Although the Prime Minister's staff had tinkered extensively with the questionnaires, the MOT nevertheless had them ready to be deployed "more or less" in time to meet the November deadline, Al-Hamiri said. However, the Council of Ministers did not give the green light to begin the data collection process.

[1](#)3. (SBU) Although Al-Hamiri expressed cautious optimism that the data collection could still begin in 2009, he cautioned against expecting any other PDS reforms next year. "With 2009 being an election year, it would be unrealistic" to expect the GOI to launch significant reforms to PDS, he said. The program is still one of the most important government-provided services in the eyes of the vast majority of Iraqis; in recent surveys conducted by the GOI's Committee for Statistics and Information Technology (COSIT), 96 percent of respondents opposed any changes to the PDS, including monetization of benefits, Al-Hamiri reported. Given that strong public sentiment, and with security gains still tenuous going into the elections, "we are buying peace with the program," he said.

Moving Toward Monetization

[1](#)4. (SBU) While reforms (other than perhaps information-gathering) will almost certainly not occur in 2009, Al-Hamiri expressed cautious optimism regarding how soon the GOI might be able to begin phasing in monetization of benefits. The costs associated with delivering a 19.3 kilogram basket of commodities to virtually every Iraqi every month have become astronomical. The pricetag to the GOI rose from USD 3.4 billion in 2007 to USD 5.8 billion in 2008. The MOT's initial budget request for 2009 was nearly USD 12 billion, Al-Hamiri said, although the Finance Ministry trimmed that to USD 5.2 billion in response to the

anticipated fall in oil revenues. Despite falling worldwide food prices, Al-Hamiri still expressed some uneasiness over his expected 2009 budget, noting the MOT has calculated that world commodity prices must be 43 percent lower over the course of 2009 than they were in 2008 in order for the PDS to stay within a \$5.2 million budget.

15. (SBU) Regardless of how much PDS costs the GOI in 2009, the need to monetize remains obvious both as a cost reducing measure and to reduce the market distortions created by massive government commodity imports. Al-Hamiri suggested that if the income questionnaires can be completed in 2009, reforms such as cash payments to those beneficiaries willing to accept them could begin as early as 2010. Full Qto accept them could begin as early as 2010. Full monetization, however, cannot occur until Iraq sees more robust private sector involvement in PDS; reliable banking procedures to deliver monetized benefits; and improved security, he noted. Al-Hamiri also suggested that even after monetization the MOT's Grain Board would still have to import 50 percent of the key commodities (wheat, rice, sugar) and create a "strategic reserve" that would protect poor Iraqis against commodity shortages and price gauging.

16. (SBU) COMMENT: Al-Hamiri's signal is among the clearest we've received indicating that significant PDS reform for 2009 is almost certainly a non-starter. The question that will emerge following national elections in 2009 is how quickly -- or perhaps even whether -- a new GOI will commit to resuming the PDS reform effort. END COMMENT.
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